

Message Text

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PAGE 01 PARIS 16454 01 OF 02 251215Z

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ACTION NODS-00

INFO OCT-01 ISO-00 (ISO) W

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R 251147Z JUN 75 ZFF-1

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 0681

S E C R E T SECTION 01 OF 02 PARIS 16454

NODIS

CHEROKEE

E.O. 11652: GDS

TAGS: PFOR US FR ECON EFIN

SUBJECT: PRESIDENT GISCARD D'ESTAING MAY MAKE NEW
SPECIFIC PROPOSALS TO THE U.S. ABOUT WORSENING
ECONOMIC SITUATION

1. DURING DIPLOMATIC CORPS RECEPTION AT THE ELYSEE PALACE THE EVENING OF JUNE 24, PRESIDENT GISCARD D'ESTAING TOOK ME ASIDE FOR A PRIVATE CONVERSATION. HE IS VERY CONCERNED ABOUT DETERIORATING ECONOMIC CONDITIONS IN FRANCE AND EUROPE, AND FEELS THAT JOINT ACTION WITH THE UNITED STATES IS REQUIRED TO TURN THE SITUATION AROUND. HE SAID HE MIGHT BE IN TOUCH WITH PRESIDENT FORD TO INITIATE DISCUSSIONS BASED ON SPECIFIC PROPOSALS ALTHOUGH HE MIGHT DECIDE TO USE OTHER CHANNELS.

2. GISCARD SAID THERE ARE A NUMBER OF ASPECTS OF THE ECONOMIC SITUATION WHICH WORRY HIM, AND HE FOCUSED ON TWO OF THEM DURING OUR CONVERSATION -- INTERNATIONAL MONETARY RELATIONS AND UNEMPLOYMENT.

3. ON MONETARY PROBLEMS, GISCARD SAID THE DOLLAR IS TOO UNDERVALUED FOR THE ECONOMIC HEALTH OF EUROPE. THE "LACK" OF U.S. GOVERNMENT SUPPORT FOR THE DOLLAR IS DISCONCERTING, GISCARD SAID, AND OUR INSISTENCE ON MAIN-
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PAGE 02 PARIS 16454 01 OF 02 251215Z

TAINING FLOATING RATES IS ALSO HURTING. LOOKING BACK AT

RECENT MONETARY TALKS, GISCARD SAID BOTH THE FRENCH AND AMERICANS COULD HAVE SHOWN MORE FLEXIBILITY, AND HE EXPECTED TO BE IN TOUCH WITH US SOON WITH SOME SPECIFIC NEW PROPOSALS AND WITH THE HOPE THAT MORE FLEXIBILITY WOULD BE SHOWN BY BOTH SIDES. I ASSURED GISCARD THAT WE MAINTAINED A FLEXIBLE ATTITUDE TOWARD DISCUSSIONS OF THIS ISSUE. I REMINDED HIM THAT THE UNITED STATES ORIGINALLY OPPOSED THE INSTITUTION OF FLOATING RATES IN 1971, BUT NATURALLY WE HAD NO CHOICE BUT TO GO ALONG WHEN THE GERMANS AND DUTCH TOOK THE INITIATIVE. ON THE WHOLE, FLOATING RATES HAVE NOT WORKED TOO BADLY. THE DOLLAR HAS HELD UP PRETTY WELL EXCEPT IN RELATION TO CERTAIN EUROPEAN CURRENCIES; THE MASSIVE CURRENCY SPECULATION THAT WE WITNESSED PRIOR TO FLOATING RATES HAS DIMINISHED CONSIDERABLY; AND THE EUROPEANS HAVE HAD LESS NEED TO INTERVENE IN CURRENCY MARKETS TO PROTECT THE DOLLAR. I ASSURED HIM, HOWEVER, THAT WE WERE PREPARED TO LOOK CAREFULLY AT ANY NEW PROPOSAL THAT HE MIGHT LAUNCH.

4. ON UNEMPLOYMENT, GISCARD SAID THE FRENCH AND GERMAN ECONOMIES ARE CONTINUING THEIR DOWNWARD TRENDS. IT HAD BEEN EXPECTED THAT RECOVERY WOULD HAVE BEEN EVIDENT BY THIS TIME. HE WANTED TO KNOW THE LATEST NEWS ABOUT THE SITUATION IN THE UNITED STATES.

5. I SAID THAT ACCORDING TO THE LATEST ESTIMATES OF THE

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PAGE 01 PARIS 16454 02 OF 02 251210Z

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TO SECSTATE WASHDC 0682

S E C R E T SECTION 02 OF 02 PARIS 16454

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PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS, THE U.S. ECONOMY HAD REACHED ITS LOWEST POINT AND IS STARTING TO RECOVER. THE BIG QUESTIONS ARE WHETHER RECOVERY WILL BE AT AN ACCEPTABLE OR INFLATIONARY RATE AND HOW MUCH STRENGTH THE RECOVERY WILL HAVE. INDICATIONS NOW ARE THAT BOTH WILL BE ACCEPTABLE. I TOLD HIM THAT ON THE BASIS OF MY EXPERIENCE IN PRIVATE INDUSTRY, I COULD PREDICT THAT EMPLOYMENT WOULD RECOVER MUCH MORE SLOWLY THAN THE OVERALL ECONOMY. THIS IS DUE TO THE REDUCTIONS IN EXCESS LABOR PREVIOUSLY EMPLOYED AS A HEDGE AGAINST SHORTAGE, INCREASED RATIONALIZATION OF LABOR, AND INCREASED MECHANIZATION, WHICH IS A CONTINUING PROCESS IN HIGHLY COMPETITIVE INDUSTRY.

6. GISCARD SAID HE WISHED HE COULD SEE A REVERSAL OF INCREASING UNEMPLOYMENT IN EUROPE, BUT THERE IS NOTHING SIMILAR TO THE U.S. SITUATION ON THE HORIZON. I SAID THAT TRADITIONALLY EUROPE TENDS TO LAG SEVERAL MONTHS BEHIND THE UNITED STATES. SO THE BEGINNING OF RECOVERY IN THE UNITED STATES TODAY COULD MEAN A SIMILAR DEVELOPMENT IN EUROPE SOME MONTHS LATER. GISCARD SAID HE HOPED SO, BUT FELT THAT JOINT ACTION BETWEEN EUROPE AND THE UNITED STATES WOULD BE ADVISABLE TO PUSH THE PROCESS ALONG. HE SAID HE OR HIS ASSOCIATES WOULD BE IN TOUCH WITH US TO INITIATE DISCUSSIONS ON SPECIFIC PROPOSALS.

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PAGE 02 PARIS 16454 02 OF 02 251210Z

7. COMMENT: UNEMPLOYMENT IS A SENSITIVE ISSUE IN ALL COUNTRIES. IN FRANCE, IT COULD BE A SOURCE OF SERIOUS POLITICAL INSTABILITY. GISCARD IS NOW LOOKING BEYOND THE VACATION PERIOD TOWARD THE FALL WHEN UNEMPLOYMENT IN FRANCE IS LIKELY TO RISE TO THE PSYCHOLOGICALLY SIGNIFICANT FIGURE OF ONE MILLION. ALTHOUGH MAXIMUM EFFORTS HAVE BEEN MADE TO DAMPEN THE IMPACT, SUCH AS 90 PERCENT UNEMPLOYMENT COMPENSATION FOR A FULL YEAR, THE GOF LEADERSHIP DREADS A REPEAT OF THE MAY 1968 DISTURBANCES IF UNEMPLOYMENT DOES NOT STOP RISING. WHETHER GISCARD'S REMARKS ON THE MONETARY NEGOTIATIONS PRESAGE SOME FURTHER FLEXIBILITY IN THE FRENCH POSITION REMAINS TO BE SEEN.

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